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Question 1

Question Type: MultipleChoice

Which of the following statements represents a quality control requirement under Government Auditing Standards?

Options:

- A-** A CPA who conducts government audits is required to undergo an annual external quality control review when an appropriate internal quality control system is not in place.
- B-** A CPA seeking to enter into a contract to perform an audit should provide the CPA's most recent external quality control review report to the party contracting for the audit.
- C-** An external quality control review of a CPA's practice should include a review of the audit documentation for each government audit performed since the prior external quality control review.
- D-** A CPA who conducts government audits may not make the CPA's external quality control review report available to the public.

Answer:

B

Explanation:

Choice 'b' is correct. Audit organizations seeking to enter into a contract to perform an audit in accordance with government auditing standards should provide their most recent external quality control review report to the party contracting for the audit.

Choice 'a' is incorrect. Each audit organization conducting audits in accordance with governmental auditing standards should have an appropriate internal quality control system in place and undergo an external quality control review.

Choice 'c' is incorrect. It is not necessary to review all government audits performed since the last external quality control review. Reviewers should select audits that provide a reasonable cross-section of engagements performed since the last review.

Choice 'd' is incorrect. It is recommended that the report be made available to the public.

Question 2

Question Type: MultipleChoice

When auditing an entity's financial statements in accordance with Government Auditing Standards (the Yellow Book), an auditor is required to report on:

- i. Recommendations for actions to improve operations.
- ii. The scope of the auditor's tests of compliance with laws and regulations.

Options:

- A- I only.
- B- II only.
- C- Both I and II.
- D- Neither I nor II.

Answer:

B

Explanation:

Choice 'b' is correct. When auditing an entity's financial statements in accordance with Government Auditing Standards, an auditor is required to report on the scope of the auditor's testing of compliance with laws and regulations, but not on recommendations for actions to improve operations.

Choices 'a', 'c', and 'd' are incorrect based on the above Explanation: .

Question 3

Question Type: MultipleChoice

When auditing an entity's financial statements in accordance with Government Auditing Standards (the Yellow Book), an auditor is required to report on:

- i. Noteworthy accomplishments of the program.
- ii. The scope of the auditor's testing of internal controls.

Options:

- A- I only.
- B- II only.
- C- Both I and II.
- D- Neither I nor II.

Answer:

B

Explanation:

Choice 'b' is correct. When auditing an entity's financial statements in accordance with Government Auditing Standards, an auditor is required to report on the scope of the auditor's testing of internal control, but not on noteworthy accomplishments of the program.

Choices 'a', 'c', and 'd' are incorrect, based on the above Explanation: .

Question 4

Question Type: MultipleChoice

Gearty & Duffy, certified public accountants, have been engaged to perform an audit of Sleepy Knoll Township in accordance with OMB Circular A-133. In connection with that engagement, Gearty & Duffy will determine major programs:

Options:

- A-** Using a list of programs included in the work plan of the Office of the Inspector General.
- B-** By applying only a specific dollar threshold, where all programs exceeding the threshold would be considered major.
- C-** By applying a risk-based approach.
- D-** By testing enough grants to achieve a single specific coverage percentage.

Answer:

C

Explanation:

Choice 'c' is correct. OMB Circular A-133 allows auditors to use a risk-based approach to determine major grants.

Choice 'a' is incorrect. The judgment of the Office of the Inspector General would not exclusively influence the selection of major programs.

Choice 'b' is incorrect. Programs in excess of \$300,000 are generally considered to be major grants; however, the dollar threshold is not the exclusive determinant of major programs.

Choice 'd' is incorrect. Risk-based auditing allows auditors to test as little as 25 percent of total federal programs or as much as 50 percent of total federal programs, depending on circumstances and on the auditor's judgment.

Question 5

Question Type: MultipleChoice

An audit performed in accordance with OMB Circular A-133 will expand the auditor's responsibilities beyond generally accepted auditing standards. The auditor's expanded responsibilities include:

Options:

- A-** Performance of additional procedures to test and report on compliance with laws, rules, regulations and provisions of contracts or grant agreements that have any effect on federal award programs.
- B-** Performance of additional procedures to test for noncompliance with laws, rules and regulations targeted for review by the Office of the Inspector General.
- C-** Performance of additional procedures to test and report on compliance with laws, rules, regulations and provisions of contracts or grant agreements that have a direct and material effect on major federal award programs.
- D-** Performance of additional procedures to test and report on achievement of program objectives.

Answer:

C

Explanation:

Choice 'c' is correct. OMB Circular A-133 expands the auditor's responsibilities to include procedures designed to test and report on compliance matters having a direct and material effect on major federal award programs.

Choice 'a' is incorrect. OMB Circular A-133 expands procedures to major programs as defined by the Circular, not to all programs.

Choice 'b' is incorrect. OMB Circular A-133 audit objectives relate to management's assertions regarding compliance with laws, rules, and regulations, not to noncompliance issues identified by the Office of the Inspector General.

Choice 'd' is incorrect. OMB Circular A-133 relates to the financial and compliance audits of major federal financial assistance programs, not to the achievement of program objectives.

Question 6

Question Type: MultipleChoice

Gearty & Duffy, certified public accountants, have been engaged to perform a single audit of Sleepy Knoll Township, a local government receiving substantial federal financial assistance for community development and housing assistance. A single audit represents:

Options:

- A-** An audit of annual activity of only federal financial assistance programs over the course of the town's fiscal year.
- B-** An inception to date audit of only federal financial assistance programs over the course of the grant year specified by the grant award.
- C-** An audit of the township's financial statements and of compliance with federal regulations relating to federal financial assistance as prescribed by the Single Audit Act and OMB Circular A-133.
- D-** An audit of the township's financial statements and the fair presentation of the revenues derived from federal financial assistance.

Answer:

C

Explanation:

Choice 'c' is correct. A single audit represents a combined audit of both an entity's financial statements and federal financial assistance programs. The single audit provides audited organizations with the opportunity to capitalize on the efficiency of satisfying their audit requirements with a single audit.

Auditors are governed by the Single Audit Act and OMB Circular A-133.

Choice 'a' is incorrect. A single audit is not simply an audit of federal financial assistance.

Choice 'b' is incorrect. A single audit is not simply an audit of federal financial assistance.

Choice 'd' is incorrect. A single audit is not limited to expression of an opinion on the fair presentation of financial statements. It also is designed to report on compliance with laws, rules, and regulations.

Question 7

Question Type: MultipleChoice

Government Auditing Standards published by the Government Accountability Office:

Options:

- A-** Only apply to audits of governments.
- B-** Only apply to audits of governments receiving federal financial assistance.
- C-** Primarily apply to audits of federal financial assistance.
- D-** Only apply to audits of federal financial assistance programs operated by state and local governments.

Answer:

C

Explanation:

Choice 'c' is correct. Generally Accepted Government Auditing Standards primarily apply to audits of federal financial assistance but have been adopted by some states for audits of state financial assistance.

Choice 'a' is incorrect. Government Auditing Standards will apply to federal financial assistance received by governments, not-for-profit organizations, or other organizations. GAGAS may also extend to other financial assistance depending on whether those standards have been adopted by the state providing the assistance.

Choice 'b' is incorrect. Government Auditing Standards will apply to federal financial assistance received by governments, not-for-profit organizations, or other organizations, not only to governments.

Choice 'd' is incorrect. Government Auditing Standards will apply to federal financial assistance received by governments, not-for-profit organizations, or other organizations, not only to governments.

Question 8

Question Type: MultipleChoice

In performing an audit in accordance with Generally Accepted Government Auditing Standards (the "Yellow Book"), the auditor:

Options:

- A-** Accepts less responsibility in conducting fieldwork than is accepted in a GAAS audit, since the specific requirements of the Generally Accepted Government Auditing Standards reduce required professional judgment.
- B-** Accepts shared responsibility with Federal Inspectors General, who are equally responsible for compliance evaluation, control, and reporting.
- C-** Accepts greater reporting responsibilities than accepted under a GAAS audit, since the auditor must report on compliance with laws, rules, and regulations, violations of which may affect financial statement amounts, and on the organization's internal control over financial reporting.
- D-** Accepts equal reporting responsibilities with that accepted under GAAS audits, since compliance evaluation and reporting have implied financial statement implications and require expanded treatment as a material contingency.

Answer:

C

Explanation:

Choice 'c' is correct. An auditor's reporting requirements under Generally Accepted Government Auditing Standards (GAGAS or the Yellow Book) are expanded to include reports on the audited entity's compliance with laws, rules, and regulations that have a material impact on the financial statements and on internal controls over financial reporting.

Rule: Reporting responsibilities under GAGAS are expanded to include:

1. Reports on compliance with laws, rules, and regulations, violations of which may affect financial statement amounts, and
2. Reports on internal control over financial reporting.

Choice 'a' is incorrect. Specific reporting requirements and other expanded audit standards associated with Yellow Book audits do not reduce professional judgment.

Choice 'b' is incorrect. Federal Inspectors General do not split their responsibilities with independent public accountants performing Yellow Book Audits.

Choice 'd' is incorrect. Although Yellow Book requirements represent logical extensions of generally accepted auditing standards, the specific responsibilities undertaken in an audit that requires application of the Yellow Book would not surface as a result of an audit under generally accepted auditing standards.

Question 9

Question Type: MultipleChoice

The auditor's report on internal controls and compliance with laws and regulations in accordance with Government Auditing Standards (the Yellow Book), is required to include:

- i. The scope of the auditor's testing of internal controls.
- ii. Uncorrected misstatements that were determined by management to be immaterial.

Options:

- A- I only.
- B- II only.
- C- Both I and II.
- D- Neither I nor II.

Answer:

A

Explanation:

Choice 'a' is correct. The scope of the auditor's testing of internal controls is required to be included in the auditor's report on internal controls and compliance with laws and regulations in accordance with Government Auditing Standards (the Yellow Book).

Choices 'b' and 'c' are incorrect. Immaterial uncorrected misstatements are not included in the auditor's report on internal controls and compliance with laws and regulations.

Choice 'd' is incorrect. The scope of the auditor's testing of internal controls is required to be included in the auditor's report on internal controls and compliance with laws and regulations in accordance with Government Auditing Standards (the Yellow Book).

Question 10

Question Type: MultipleChoice

Gail is auditing the financial statements of Hoefener Home Improvements, a publicly held company. Gail notes several deficiencies in internal control, and is trying to determine whether each deficiency constitutes a significant deficiency or a material weakness. Which best describes the framework Gail should use in making this evaluation?

Options:

- A-** A significant deficiency exists for weaknesses that are important enough to merit the attention of those responsible for financial reporting, and a material weakness exists when there is a reasonable possibility of material misstatement.
- B-** A significant deficiency exists when there is more than a remote chance of a more than inconsequential misstatement, and a material weakness exists when there is more than a remote chance of a material misstatement.

C- A significant deficiency exists when there is more than a remote chance of a more than inconsequential misstatement, and a material weakness exists when there is a reasonable possibility of material misstatement.

D- A significant deficiency exists for weaknesses that are important enough to merit the attention of those responsible for financial reporting, and a material weakness exists when there is more than a remote chance of a material misstatement.

Answer:

A

Explanation:

Choice 'a' is correct. For issuers, a significant deficiency exists for weaknesses that are important enough to merit the attention of those responsible for financial reporting, and a material weakness exists when there is a reasonable possibility of material misstatement.

Choice 'b' is incorrect. For nonissuers, a significant deficiency exists when there is more than a remote chance of a more than inconsequential misstatement, and a material weakness exists when there is more than a remote chance of a material misstatement. However, Hoefener is an issuer, so different rules apply.

Choice 'c' is incorrect. For issuers, a significant deficiency exists for weaknesses that are important enough to merit the attention of those responsible for financial reporting.

Choice 'd' is incorrect. For issuers, a material weakness exists when there is a reasonable possibility of material misstatement.

Government Auditing

Question 11

Question Type: MultipleChoice

In which case might an auditor of an issuer render a qualified opinion on internal control?

Options:

- A- When there is a scope limitation.
- B- When there is a material weakness in internal control.
- C- Both 'a' and 'b'.
- D- Neither 'a' nor 'b'.

Answer:

D

Explanation:

Choice 'd' is correct. A scope limitation requires the auditor to disclaim an opinion or withdraw from the engagement, and a material weakness in internal control requires the auditor to issue an adverse opinion.

Neither situation would result in a qualified opinion.

Choice 'a' is incorrect. A scope limitation requires the auditor to disclaim an opinion or withdraw from the engagement.

Choice 'b' is incorrect. A material weakness in internal control requires the auditor to issue an adverse opinion.

Choice 'c' is incorrect. A scope limitation requires the auditor to disclaim an opinion or withdraw from the engagement, and a material weakness in internal control requires the auditor to issue an adverse opinion.

Neither situation would result in a qualified opinion.

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